

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 19, 2010

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, October 19, 2010, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: Jim Host and William Summers V, Louisville Arena Authority; Harold Workman and Laura Chandler, Kentucky State Fair Board; Anthony Mathis, M.A. Mortenson Company; Joe Wise, Building Trades of Louisville; Elizabeth Baker, University of Kentucky; John Hicks, Governor's Office of Policy and Management; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Cabinet for Economic Development; and Tom Howard, Office of Financial Management.

LRC Staff: Kristi Culpepper, Don Mullis, Shawn Bowen, and Samantha Gange.

Approval of Minutes for September 21, 2010

Representative Wayne made a motion to approve the minutes of the September 21, 2010, meeting. The motion was seconded by Senator Leeper and approved by voice vote.

Information items

Representative Westrom asked Kristi Culpepper, Staff Administrator, to discuss information items. Ms. Culpepper said members' folders contained several information items. The first three items were the quarterly status reports on capital projects from the Finance and Administration Cabinet and the universities that manage their own capital construction programs; the quarterly status report on court facility construction and renovation projects from the Administrative Office of the Courts; and the quarterly status report on information technology from the Commonwealth Office of Technology.

The fourth information item was the Semi-Annual Report of the Kentucky Asset/Liability Commission regarding the state's investments and debt.

The fifth information item was an update regarding Murray State University's proposed new bond issue. At the last committee meeting, the committee approved a new bond issue for Murray. Murray rejected the bids for that bond sale because interest rates were not favorable at the time for funding the escrow account.

The sixth information item was a staff memorandum providing background information on the Louisville Arena project.

Ms. Culpepper said the last items of information were the staff and bond market updates.

Presentation by Jim Host, Chairman, Louisville Arena Authority

Representative Westrom asked Mr. Host to make a presentation to the committee on the Louisville Arena (arena). Mr. Host introduced Harold Workman, President and CEO, Kentucky State Fair Board (KSFB); Joe Wise, Executive Director, Building Trades of Louisville; Anthony Mathis, M.A. Mortenson Co., Construction Manager-at-Risk for the Arena; and William Summers V, member of the Louisville Arena Authority (LAA). Mr. Host said the cost of the Arena was \$238,000,000 and includes 32,000 square feet of public meeting space.

Next Mr. Host presented statistics on the overall hours worked to construct the arena, minority participation, overall work force, and taxes withheld for Louisville and the state. Mr. Host then showed the committee a video on the Construction Pipeline project, which is a local program that trains unemployed individuals in various trades. He said the program was utilized in constructing the arena.

Mr. Host provided the committee with the current cash flow projections of the arena, which included Type A revenues (debt service obligated funds) and Type B revenues (general operating revenues). Mr. Host then discussed rating agency Standard and Poor's stress tests for LAA revenues.

Finally, Mr. Host presented to the committee the estimated cash flow projections for Fiscal Year 2011, which includes the Louisville Metro minimum of \$6,533,000 and estimated tax increment financing (TIF) revenues of \$1,000,000.

Committee Member Questions regarding the Louisville Arena

Senator Leeper asked what the impact will be on Freedom Hall in Louisville. Mr. Workman said the agreement between the LAA and the KSFB requires LAA to establish a reserve account to reimburse the KSFB for lost revenue and pay \$750,000 annually to the account until June 2014. In January 2014, the two parties will determine the arena's actual impact on Freedom Hall's revenue with the intention to compensate KSFB for revenue lost from events that relocated to the arena.

In response to another question from Senator Leeper, Mr. Workman said he anticipates it will take about three years for Freedom Hall to attract other events to make up for lost revenue.

In response to a question from Senator Carroll, Mr. Host said the seating capacity is 22,000 for UL Basketball games, which is 3,000 more seats than Freedom Hall.

Senator Carroll asked what the KSFB staffing would be for the arena. Mr. Workman said KSFB currently has 29 employees assigned to the arena only and 10 employees assigned to the arena 50 to 75 percent of the time.

In response to another question from Senator Carroll, Mr. Workman said the parking revenues attributed to the UL basketball are included in the reimbursement from LAA to KSFB. He said parking at the Expo Center is anticipated to be down, but the KSFB parking garages downtown will make up for that.

Representative Wayne asked if LAA would be able to make debt service payments in future years if TIF revenues continue to underperform. Mr. Host said the Louisville Metro Government has pledged a maximum guarantee, which is \$3,000,000 more than the minimum guarantee. Mr. Host said that according to the bond indenture, the Louisville Metro Government must include the maximum guarantee in their budget.

Representative Wayne asked if the LAA will be negatively impacted by other TIF projects in the downtown Louisville area. Mr. Host said LAA calculated the other seven TIF projects in the area into account in their revenues projections.

Representative Wayne asked if LAA has heard from Moody's in regards to a possible change in the rating of the bonds. Mr. Host said LAA met with Moody's recently and they indicated no reason to downgrade the bonds at the present time. He said Moody's will return in May 2011 and will re-examine the LAA's credit on a continual basis.

Representative Damron asked for an estimate of the revenues the arena is generating for the city of Louisville. Mr. Host said the LAA estimated there would be \$490 million additional property being built or renovated in the area in the 30 year period, as well as two new hotels. He said Mr. Workman will be commissioning a study in the upcoming year that will include the economic impact of the arena on the city.

Representative Damron asked Mr. Workman to provide the committee with the report once it is published. Mr. Workman responded affirmatively.

In response to questions from Senator Tori and Representative Westrom, Mr. Host said that the Construction Pipeline project program help candidates to be accepted into an apprenticeship program.

In response to a question from Representative Rudy, Mr. Host said NCAA Final Four would not be able to be held at the arena because of seating; however, NCAA regional finals will be held at the arena.

Report of Purchase of Unbudgeted Medical Equipment from the University of Kentucky

Representative Westrom asked Elizabeth Baker, Planning Director, University of Kentucky (UK), to present an item related to medical equipment. Ms. Baker said that UK has used available restricted funds totaling \$4,405,820 to acquire five items of medical equipment. Purchases of unbudgeted equipment must be reported to the Committee. No action was required.

Scope Increase from the Finance and Administration Cabinet

Next, Representative Westrom asked John Hicks, Deputy Director, Governor's Office of Policy and Management, to present an item related to a scope increase. Mr. Hicks said that the Finance and Administration Cabinet is requesting a scope increase for the Department of Military Affairs Construct 25-meter Rifle Range project at the Wendell H. Ford Regional Training Center. The scope increase is \$140,000 for a revised scope of \$750,000. The project is 100 percent federally funded. The increase was necessary because of anticipated construction change orders.

Senator Buford made a motion to approve the scope increase. The motion was seconded by Senator Leeper. Seven members voted "yes" and one member voted "no." The motion passed.

Kentucky Infrastructure Authority Fund A Loans

Representative Westrom asked Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA), to present several items related to loans and grants. Ms. Williams said the first items were two Fund A loan interest rate corrections for Lexington Fayette Urban County Government. In June 2010, the committee approved two Fund A loan requests for \$10,500,000 and a \$3,928,375. The projects are being resubmitted to the committee to correct the interest rate. The correct interest rate is two percent.

Senator Buford made a motion to approve the two Fund A loan interest rate corrections. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

KIA Fund B Loan

Ms. Williams said the next loan request was a \$1,246,754 Fund B loan for the City of Marion in Crittenden County to replace the existing cast iron waterline along Main Street. The loan term is 20 years with an interest rate of one percent.

Senator Carroll made a motion to approve the Fund B loan. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

KIA 2020 Grant

Next Ms. Williams said the McLean County Fiscal Court, on behalf of the McLean County DAWN Consortium, is requesting a \$150,000 grant from the 2020 Water Service Account Fund Program for a water needs assessment. The 2020 Program was authorized by the 2000 General Assembly for \$50 million as the Water Resources Development Bond Program.

Senator Carroll made a motion to approve the 2020 grant. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

KIA Fund B Grant Amendment

Ms. Williams said the City of Owingsville in Bath County requested a \$50,000 Fund B grant to upgrade its existing telemetry system in January 2007. However, the telemetry project was not needed. The city will now use the grant funds to replace a damaged waterline.

Senator Carroll made a motion to approve the Fund B grant amendment. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

KIA Grants

Ms. Williams indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further committee action was needed.

Economic Development Bond (EDB) Projects

Representative Westrom asked Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, to present two items related to EDB grants. Ms. Smith said the first item was an EDB pool grant – Base Realignment and Closure (BRAC) project. The 2010 General Assembly (Extraordinary Session) authorized \$38,495,000 in HB 1 (2010-2012 Budget) of General-Fund supported bond funds for BRAC projects. The grant request was \$3,000,000 for the City of Shepherdsville to provide a wastewater interceptor line between Shepherdsville and southern Bullitt County. The project is necessary to accommodate growth in the area adjacent to Fork Knox.

Representative Wayne asked if the City of Shepherdsville and Bullitt County have coordinated the project details with the Metropolitan Sewer District (MSD). He said that there is talk about MSD managing Bullitt County's sewer and storm water in the future. Ms. Smith said she would provide the information to committee staff.

Senator Buford made a motion to approve the EDB BRAC project. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Ms. Smith said the second item was an EDB grant in the amount of \$500,000 for the City of Franklin for the benefit of Tractor Supply Company. The grant proceeds will offset the cost of constructing and equipping an approximately 840,000 square foot regional distribution center at the Sanders Interstate Industrial Park in Simpson County. Pursuant to the EDB grant, Tractor Supply Co. will be required to create 216 new, full-time jobs within three years. Additionally, the company will be required to pay the 216 new jobs an average hourly wage of not less than \$12.94, excluding benefits.

Representative Rudy asked why a company that generates over \$3 billion in revenues needs a \$500,000 grant from the state. Ms. Smith said it was part of a package that was negotiated with the company to attract them to the state.

Senator Leeper asked what other economic development incentives the company has received. Ms. Smith said that Tractor Supply Co. received approval for tax incentives under the Kentucky Business Investment Program of \$2.9 million, which are corporate income tax credits and wage assessments. Additionally, the company received \$940,000 under the Kentucky Enterprise Initiative Act for sales tax refunds.

Representative Wayne commented that this is not the type of economic incentive the state should be offering.

Senator Buford made a motion to approve the EDB grant for Tractor Supply Co. The motion was seconded by Senator Leeper. Six members voted "yes" and two members voted "no." The motion passed.

New Bond Issues from the Office of Financial Management

Representative Westrom asked Tom Howard, Executive Director, Office of Financial Management, to present two items related to bonds. Mr. Howard said the first item was a new bond issue; State Property and Buildings Commission (SPBC) Revenue Bonds, Project No. 99 Series A, B, and C. Proceeds from this bond issue will provide financing for projects authorized in the current and previous budget bills and other appropriation bills. The par amount of the bonds is \$322,535,000.

Senator Carroll made a motion to approve the new bond issue for SPBC. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

Mr. Howard presented the second new bond issue; Kentucky Economic Development Finance Authority (KEDFA) Solid Waste Refunding Revenue Bonds (Republic Services, Inc. Project) Series 2010A and Series 2010B. Proceeds from this conduit bond issue will refund bonds used to finance landfill facilities and equipment in Williamstown, Beaver Dam, Louisville, Stanford, and Sulfur. Gross proceeds for this bond issue are not to exceed \$47,000,000.

Senator Buford made a motion to approve the conduit bond issue for KEDFA. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

School Bond Issues

Mr. Howard reported eight new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Boyd County, Campbellsville Independent (Taylor County), Covington Independent (Kenton County), Elizabethtown Independent (Hardin County), Estill County, Madison County, Russell Independent (Greenup County), and Whitley County.

Senator Buford made a motion to approve the eight new bond issues with SFCC participation. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Damron asked if OFM has examined a report attributed to the Wall Street Journal that cites Kentucky as the worst run state. Mr. Howard said that OFM has not formally examined the report; however, in his view it appears that the report does not adequately address a number of issues. He also noted that the report seemed to place a lot of emphasis on poverty-based issues as opposed to financial management issues. Mr. Howard noted a report published by Moody's that would have more accurate information concerning the financial management of the state.

In response to another question from Representative Damron, Mr. Howard said OFM will work with the Governor's Office of Economic Analysis to provide an analysis of the Wall Street Journal report.

Representative Westrom asked Ms. Culpepper to report one new local school bond issue. Ms. Culpepper reported one new local school district bond issue with 100 percent local debt service support for Anderson County.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:30 p.m.

